

# ENVIRONMENTAL BUSINESS JOURNAL®

Strategic Information for a Changing Industry

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Mergers & Acquisitions

Environmental Business International Inc.

## M&A MACHINE GRINDS ON; ACTIVITY LULLS BUT DEMAND AND VALUES RISE

*As global M&A dips in 2023, environmental M&A activity still near record highs in many segments.*

Strong industry fundamentals and a variety of buyers kept merger and acquisition (M&A) activity high across the environmental industry in 2023. Economic issues and interest rates that slowed activity significantly across other sectors kept transaction numbers lower than in 2022 in most segments, and a decreasing pool of acquisition candidates lowered the size of the average deal, as well as put upward pressure on valuations. With client demand strong across multiple categories, the energy transition still in its earliest phases, investment need high in human resources and technology, and more capital flowing into the entities fueling much of the recent surges in M&A, the trends of high activity and strong valuation are likely to continue.

*So why would acquisition activity be somewhat reduced in 2023?* One could surmise that firms were so busy with double-digit growth and the hiring of talent through traditional methods, slowing down some M&A activity. Economic factors, principally higher interest rates, also have an impact on the financing aspects of driving some of the deals, so that is a factor. An ample supply of acquisition candidates may also be a factor in certain geographies or service areas, although this is not often cited by acquiring firms unless the criteria for an acquisition candidate is of a size or scale well above the average deal. **Morrissey Goodale** data on 2023 U.S. M&A transactions in the architecture, engineering and environmental consulting sector indicated that the median seller had revenues and headcount of only \$3 million and 20 people, respectively, in 2023.

## Inside EBJ: Mergers & Acquisitions 2023

<b>Environmental Industry M&amp;A</b> slows in transaction volume in 2023 after a big year in 2022. New investors and employee-owners continue to enter the industry, finding more reasons to place capital and their prospects for return into the increasingly capable hands of environmental industry executives .....	1-3
<b>Global M&amp;A</b> Statistics Across All Sectors Show a Slowing Pace of Transactions in 2023 and Highlight the Strength and Resilience of the Environmental, Energy Transition and Climate Change Industries .....	4-5
<b>Morrissey Goodale M&amp;A Year-In-Review</b> Summarizes M&A Trends in A&E and Environmental C&E; Q&A and Nine Movers and Shakers to Watch in 2024 ...	6-11
<b>Private Equity Activity</b> and Influence Continues to Grow in the Environmental Industry: Selected private equity investments in environmental companies indicate a breadth of interest and a host of new players and repeat investors.....	12-13
<b>Takeaways on 2023 A/E M&amp;A Activity</b> from EFCG, 2020 and ROG+ Partners: EFCG Sees a New Wave of Consolidators; 2020 Environmental Group Says Smaller Deals Become More Attractive to Environmental Industry Investors; ROG Questions Pros & Cons of Private Equity in the Industry .....	14-17
<b>Terracon</b> Keeps up the M&A Pace; Matching Culture and Core Values Across Multiple Sectors and Regions .....	18
<b>Citadel EHS M&amp;A</b> Process Focuses on Key Values to Embrace Culture Not as a Destination, But as a Journey .....	21
<b>Natural Systems Design</b> finds that NSD + CGS is a Natural Fit of Aligned Mission & Motivation in Northwest Natural Resources Market .....	24
<b>EcoAnalysts</b> Expands Leadership in Key Niche With Targeted Acquisitions .....	26
<b>Liberty Environmental</b> Defines its Own M&A Sweet Spot in Size & Resources ...	28
<b>ARM Group</b> Uses Team Approach to M&A and Integration; Two Acquisitions in 2023 Bring Total to Four Since 2017 .....	30
<b>Kleinfelder</b> Partners With <b>Lindsay Goldberg</b> to Strengthen Committed Strategy to M&A and Organic Growth.....	32
<b>UES'</b> More Than 25 Acquisitions Highlight the Challenge of Integration and the Power of Collaboration.....	34
<b>WSP USA</b> Integrating Major Acquisitions Golder and Wood E&I; Emphasizes Commitments to Digital Transformation & Energy Transition .....	37
<b>Pace</b> on Pace to Continue Ambitious M&A to Strengthen Its Lab Network.....	40
Acquisition Builds <b>SWCA's</b> Position as an ESG & Sustainability Advisor .....	43
<b>Alliance Technical Group</b> Accelerates its Pace of M&A in Fragmented Markets....	46
Small Transactions Maintain Flow of <b>Water Utility M&amp;A</b> in 2023 .....	48

Overheated valuations or overinflated expectations of value or price of companies is almost always a factor in any deal — and price is always a negotiating point — but with overall valuations indexing at higher multiples of earnings in the current environment, seller expectations of a buyer 'overpaying' are likely magnified.

**And what does the level of merger and acquisition activity mean?** First, it is an indicator of overall industry health, reflected in the number of acquirers seeking growth in multiple attractive markets — and their ability to raise or access capital, or generate enough cash flow to finance their own acquisitions. It is also a reflection of an abundant number of acquirable candidates as well, which only continue to be produced in active M&A environments with multiple growth markets for companies to engage in.

Second, M&A activity is inevitably impacted by overall macroeconomic trends which mostly manifest in the ability of the acquiring companies or the investors participating in M&A accessing capital or debt instruments to finance acquisition campaigns. Here interest rates are the most influential indicator, raising the overall cost of capital and curtailing acquisition activity in some cases. Traditional debt governed or guided by the interest rates set by the Federal Reserve are by no means the only source of financing M&A, but many other instruments are impacted by the overall economic situation and even directly by the prime rate.

Other economic factors like inflation, labor rates, stock market performance, consumer spending, construction activity, property values, and other factors related to primary markets for acquisition candidates can also have significant impact on M&A.

These two major factors of industry prosperity and tight financing likely play into the scenario of the final count of deals consummated in 2023 in the consulting & engineering segment being still near historic highs, but a slight but notable drop off from 2021 and 2022. The most logical explanation being the ongoing health and dynamism of the industry remains a strong

positive, and the economic drag of higher interest rates is influential, but not enough to curtail the majority of M&A activity underway or in process.

A final factor worth commenting on relates to the breadth and depth of the acquisition candidate pool—and in the environmental industry this varies considerably by segment. One of the reasons cited in many investment propositions or capital raising documents for investment funds or company roll-up strategies is that the segment in question that they are targeting is 'highly fragmented'. This means no clear and dominant market player or players usually, but more an abundance of acquisition candidates to sustain a long-term acquisition campaign. It also means opportunity for increased strategic market position or even dominance in particular client sectors or subsegments.

Another characteristic of the environmental industry is its multiple segments, and the multiple subsegments of all of these segments. The result of this is that many acquisition strategies or investment propositions may target a major segment or segments, but inevitably will focus down on a subsegment or series of subsegments to be custom designed or defined as their own competitive gameboard. This may make life interesting for strategists and market analysts, EBJ included, and chief strategy officers and other executives in charge of charting the future in the evolving environmental and climate change industries, but may not make it so easy to simplify

these strategies and investment propositions to the financiers who may back them.

The redefining the gameboard exercise continues to be played out as the environmental industry and energy transition evolves, with the welcome result that the investment community continues to be more familiar with industry segments, as well as the multiple business models in professional services: time-and-materials and fixed-price contracting, project teaming, risk management, materials handling, construction, contract operations, information management, energy services, mitigation banking, etc. Increasing comfort and capital along with deal experience adds up to continued M&A activity.

## APPROACHES TO M&A

Growth strategies almost invariably combine objectives in organic growth and acquisitive growth. Acquisitions can be opportunistic, but from a strategic standpoint, acquisitions are usually in pursuit of geographic expansion, entry into a new major client category, or increasingly in the addition of a new service category in the seemingly perpetually dynamic demand situation that are the environmental and climate change industries.

New service offerings in demand can also be in the form of new technologies to expand or differentiate existing service lines. Like in the past, there are still examples of firms buying into entirely new media categories: A firm specializing in air quality or remediation buying into natu-

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## PACE ON PACE TO CONTINUE AMBITIOUS M&A TO STRENGTHEN ITS LABORATORY NETWORK

**Pace**® is a science and technology company made up of two divisions, Pace Analytical Services and Pace Life Sciences. Its 4,500+ employees work on behalf of its customers to ensure the air we breathe, the water we drink, and the medicines we take are safe for you. Pace provides environmental testing and analytical services to a variety of customers, including environmental consultants and engineering firms, industries, local and federal government agencies. The Pace Analytical Services laboratory network has over 100 labs and service centers across the U.S. We pride ourselves on being a local lab partner, offering convenience and a face to customers, backed by a large operational infrastructure to provide quick, quality results, even for the most challenging projects. In January 2022, **Leonard Green & Partners** acquired a majority stake in Pace from **Aurora Capital** the former majority owner that reinvested alongside LGP as part of the transaction.

*Eric Roman, CEO. Strong business acumen earned from over 25 years at GE coupled with leading and growing the Thermo Fisher Scientific Laboratory Products Division as its president, uniquely positioned Roman to lead Pace®, the largest laboratory network in the U.S.*

*Greg Whitman, President, Analytical Services Division. 35 years of industry experience coupled with 29 years of leadership and a passion for environmental science have fueled a career for Mr. Whitman at Pace®.*

*Judy Morgan, Vice President and Chief Compliance Officer. With over 30 years in the industry, Ms. Morgan provides the experience and leadership required to manage a strong compliance program while overseeing initiatives that impact ethics, sustainability, quality, and EHS.*

### **EBJ: Congratulations on the acquisition of Alpha Analytical. Can you provide an overview of the transaction?**

Whitman: Thank you. We were looking to further expand our footprint in the Northeast U.S. after acquiring a series of laboratories in the region to elevate the level of services we could provide to area customers. Alpha Analytical, a highly respected lab service provider in the Northeast, was a business we admired for the integrity of its labs and customer service. Pace® and Alpha leaders have had a relationship going back over ten years and because of our mutual respect, shared values, and focus on sustainability, Pace® and Alpha jointly felt that the fit was in the best interest of each company and our combined future success. Pace® operates our network as a collective whole and not as independent franchises, which we believe allows us to achieve a higher level of overall performance and backup for our customers.

Alpha Analytical provides a full range of environmental laboratory services, complementing those offered by Pace® includ-

ing air, water, soil, and testing for emerging contaminants such as PFAS. Through the acquisition, we also gained further depth in sediment and tissue analysis and hydrocarbon forensics capabilities. Alpha also brought to Pace® several efficiencies, including a robust courier network for sample collection and delivery that we are looking to further expand.

### **EBJ: Why did you consider that it was important for Pace to strengthen its presence in the Northeast? What are some industry trends in your markets?**

Roman: We wanted to better serve our customers in the region. Proximity matters to our customers, not only for convenience, but for building partnerships, and we believed the combined entity would strengthen our service offerings. The most efficient way to grow and get closer to these customers is to find labs to bring into the Pace® family that align with our service and business values.

Certainly, the density of the northeast – and its regulatory landscape – also benefits our growth opportunities. We are already

experiencing more demand for PFAS and Air testing and have plans to build additional capacity in the region.

### **EBJ: How do you evaluate the cultural fit of a potential acquisition?**

Whitman: Cultural fit is challenging to gauge, and the importance varies depending on the size and type of the acquisition. For larger acquisitions supporting geographical expansion, cultural fit is very important. Access to management layers during the due diligence process is critical to get a sense for culture. We evaluate the distribution of decision rights within the organization to understand if there is a central leader, or if it is more of a team environment with distributed responsibilities and dispersed institutional knowledge. We also attempt to identify individual contributors that are cultural leaders even though they are not in a formal leadership position. KPIs used within the business also help us to understand what the company views as important to ensuring customer and employee satisfaction. The fact that we have known, respected, and worked with the owners and leaders at Alpha for over 10 years ensured this was a good fit.

### **EBJ: What breakthroughs in the environmental testing segments are you most excited about, and how is your company positioned to leverage them?**

Roman: Pace® is proud to be part of an industry that works to protect our environment. With more companies promoting sustainable practices and implementing Environmental, Social, and Governance (ESG) initiatives, we believe our mission is more relevant than ever. As such, we are really excited about our innovations in sustainability. Pace® is fortunate to have dedicated R&D resources that work in our “Innovations Lab”. This team has deep experience on the lab bench and a passion for developing methods and processes to reduce waste and our carbon footprint, while driving operational efficiencies. Pace® now offers several testing services providing quality data faster, using smaller sample sizes. This means less solvent use, emissions, containers, and waste. We recently began offering a low sample volume test method for PFAS that provides faster results to our customers.

**EBJ: How do you prioritize investments in research & development within your company?**

Roman: As mentioned previously, we invest in innovations that promote sustainable practices in our test methods and processes, while also driving operational efficiency. This is guided by a prioritization process based on the needs of our customers and overall demand. In recent years this has included a patented methodology for herbicide testing that provides more accurate results faster than standard methods while reducing waste. And our PFAS team is continually researching and evaluating new test methods, often at the request of the EPA. With increasing state and Federal regulatory requirements, we added labs across the country to test for PFAS in a wide range of materials.

Over the last several years, we have invested in Air testing and have established an Air Center of Excellence, one of the largest Air testing laboratories in the nation. Along with our capacity and expertise, the Pace® network has over 11,000 canisters and processes for quick distribution and sample receiving. Canister supply and demand is a challenge for many labs, particularly in the winter months, so we have put forth the effort to ensure we are in the best position to deliver these services to our customers.

We also saw a need to support complex Toxic Characteristic Leaching Procedure (TCLP) testing and waste characterization. To support customers and increased demand, we implemented a TCLP center of excellence – a lab and team with the instrumentation and expertise to support these challenging projects.

**EBJ: What new environmental testing compliance challenges do you foresee, and how is your company preparing for them?**

Morgan: In many environmental professional organizations, it has become apparent that the laboratory industry is struggling to attract and retain long-term staff. In addition, the constant pressure for faster results coupled with high quality, have increased the challenges. Experience and knowledge gaps are causing increased

process deficiencies in the laboratories as evidenced by a recent discussion among the assessment community at the 2024 TNI Forum on Environmental Accreditation.

Aside from employment challenges, the regulatory landscape is showing a focus on chemicals of concern that have been monitored over the past several years and identifying the best testing protocol and technology to gather reliable information continues to be a focal point. The regulations are moving toward increased elimination of toxic chemicals, and this includes the main extraction solvent, methylene chloride, used by the laboratories for EPA organic methods.

This effort is coupled with lowering personnel exposure criteria. To counterbalance, new technology, improved techniques, and innovation are top solutions to the approaching crisis, but current regulatory requirements relative to method development and revision slow the overall process. This makes it difficult to justify the monetary investment, since the amount of time to realize a financial return cannot accurately be predicted.

Outside of the focus on improved technology, there are still many manual processes in the lab, therefore automation could be a possible solution. It is time to look harder at the repetitive motions and create solutions to automate activities, where feasible. In addition, there can also be some positive wins to refining other parts of the laboratory processes, such as reducing the sample container size and providing uniformity where possible, which would decrease storage space, cooler size, waste, amount/number of chemicals to process, disposal, exposure, and many other benefits.

**EBJ: How has your company's strategy created a competitive advantage?**

Roman: Growing our laboratory network across the U.S. makes us more accessible to our customers. With Pace®, customers get local convenience and customer service with the benefits of a larger operation that can provide a wide range of lab services. This is particularly valuable to customers who also have testing needs at

multiple locations, across the country.

The Pace® Laboratory Network is decades in the making, and we are continuously challenging ourselves with how we can evolve to meet and exceed the needs of our customers. We work to improve all aspects of our operations to provide value to our customers and support them where and when they need us. But ultimately, it's the commitment of the Pace® team that sets us apart and how we operate as a collective whole. We hear this over and over from our customers; they trust us and value the relationships they have built with our team.

**EBJ: Are there any emerging areas within environmental testing that you're focusing on or plan to enter?**

Whitman: Pace is growing in several key areas. We are expanding our PFAS testing capabilities, allowing us to meet growing demands and regulatory requirements. In particular, we are now providing PFAS product testing and are working with consumer product manufacturers by testing their raw materials and products for contaminants. We have also added ASTM D8421/ASTM D8535 and 8327, a series of PFAS test methods developed for solid and aqueous matrices, which produce quality results faster with smaller sample requirements.

As mentioned earlier, we are adding capacity for both PFAS and Air testing, particularly in the Northeast. We are also significantly expanding our radiochemistry laboratory in the Nashville area in response to increased demand. We are looking to break ground on this expansion mid-2024.

Pace® also offers microbiology services for environmental and clinical settings. In this area of our business, we are growing our Legionella services among water treatment providers and environmental consultants - along with expanding our presence in hospital systems and with long-term care providers.

Pace® Analytical Services is also experiencing more synergies with our Life Sciences Division and Professional Services teams. For example, many of our PFAS testing customers also benefit from the

support of our Regulatory Services team. Along the same vein, we are able to provide full-service cleanroom support to pharmaceutical manufacturers with a combination of USP 797 testing, cleanroom certification, and environmental monitoring services.

**EBJ: Can you tell us about your Lab Network? How is it structured and why have you created this particular network? What type of clients are you trying to accommodate the most and what values / services are of most important for Pace?**

Roman: The Pace® Laboratory Network is a system of over 100 laboratories and service centers across the U.S. Some labs are full-service environmental testing labs, and some are highly specialized, for example our TCLP and Air Centers of Excellence, and others. Our locations are supported by a team of field services professionals for sample collection and monitoring, and a fleet of 400+ couriers, who pick up samples for delivery to a designated Pace® lab. We have a sophisticated system for tracking and routing these vehicles to drive efficiency and reduce waste.

The intention of the Network is to get closer to all types of customers. We work to ensure customers have a consistent experience at any Pace® location or service center they frequent. They know what to expect; we keep them informed of the status of their project and provide their data securely through our customer portal. The common denominator among our customers is that they value convenience, quick turnaround times, and building relationships with our team members. To them, proximity matters, and we're committed to providing the level of service they need to do their important work.

Environmental consultants and engineering firms are one of the largest segments Pace® serves, and we have several accounts that have been with us for decades. For these customers, our network provides the advantage of supporting both routine and specialty projects. We have had instances, for example, where we have pulled experts from across our network to build

unique devices for difficult sample collection. Or have utilized instruments from our life sciences labs to quantitate the presence of COVID-19 in waste. We like the challenging work our environmental consultants and engineering firms bring to us and believe they rely on us because of our depth of resources and commitment to get the data they need.

The Pace® Network provides leverage in the ability to level-load demand and capac-

ity where applicable. For example, we are often called upon to support environmental disasters – everything from pipeline spills and plant explosions to wildfires and train derailments. In these situations, we are able to quickly mobilize resources for sample collection and delivery to, in many cases, multiple Pace® labs in the area or region. This is an advantage when timing is so critical. These customers need results fast to make important decisions to protect lives and keep communities safe. □

### **Notable Pace Transactions**

In March 2023, Pace Analytical Services acquired **Alpha Analytical LLC**, a full-service environmental laboratory services company based in Westborough, Mass. The acquisition greatly strengthened Pace's capacity to carry out environmental testing in the Northeast United States and expanded its forensics and sediment testing capabilities. The full range of Alpha Analytical laboratory services, including two environmental laboratories and 11 service centers, were added to the Pace laboratory network. The company offers the largest laboratory capacity in the Northeast with 39 locations. Pace also welcomed the addition of hydrocarbon forensics used to detect petroleum-based contaminants, as well as additional dredging and ecological risk assessment support used in testing water, wildlife tissue and soil. Pace provides environmental testing and analytical laboratory services in support of regulatory compliance requirements, site assessments, remediation, product testing, environmental disasters, waste management, etc.

**Leonard Green Acquires Majority Stake in Pace from Aurora Capital:** In January 2022, **Leonard Green & Partners (LGP)** acquired a majority stake in Pace (Minneapolis, Minn.), a provider of environmental and life sciences testing. **Aurora Capital Partners**, former majority owner of Pace, reinvested alongside LGP as part of the transaction. Founded in 1978, Pace built a national network of over 65 analytical testing laboratories, eight life sciences labs, and more than 45 service centers. Pace's Analytical Services division provides environmental testing, sampling, and analytical services. "We are delighted to have the opportunity to continue partnering with Pace and to work with the LGP team," said Randy Moser, partner at Aurora. "We also thank Steve Vanderboom, Pace's founder, for selecting us as his partner in 2016 and congratulate him on his retirement." Houlihan Lokey served as the lead financial advisor to Pace on the transaction.

**Pace Analytical adds four Midwest lab locations:** In December 2021, Pace Analytical Services (Minneapolis, Minn.) acquired **PDC Laboratories Inc.** (Peoria, Ill.), a specialist in water quality, groundwater, landfill monitoring, and environmental testing services. "The services PDC provides dovetail nicely into the Pace laboratory network, allowing us to expand our capacity and get closer to customers in the heartland," said Eric Roman, Pace CEO. PDC Laboratories began as a family business in 1981 and grew to four laboratories across Illinois and Missouri. PDC allowed Pace to expand its capacity in routine environmental testing of drinking water, wastewater, groundwater, and storm water as well as specialty testing including Air, Industrial Hygiene, Legionella, and PFAS. Earlier in December 2021, Pace announced that it had acquired Special Pathogens Laboratory (Pittsburgh, Pa.) in Legionella testing.